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June 16, 2006

AGENDA ITEM 9

TO: MEMBERS OF THE FINANCE COMMITTEE

- I. SUBJECT:** CalPERS Three-Year Business Plan 2006-07 through 2008-09 (Second Reading)
- II. PROGRAM:** Systemwide
- III. RECOMMENDATION:** Approval as a Second Reading of the CalPERS Three-Year Business Plan 2006-07 through 2008-09 and the Transmittal Letter. Upon approval, transmit the Three-Year Business Plan 2006-07 through 2008-09 to the Joint Legislative Budget Committee, Fiscal Committees of the Legislature, the State Controller, and the Department of Finance in accordance with the Budget Act of 2005; and the Legislative Analyst's Office and the State and Consumer Services Agency.

IV. ANALYSIS:

Background

In 1995-96, CalPERS conducted a strategic planning effort that included the participation of the CalPERS Board of Administration, Executive and Senior Management, and staff. The result was a Strategic Plan, for which Executive and Senior Management developed business objectives to define the roadmap toward achieving the CalPERS Strategic Plan goals. The Strategic Plan served CalPERS for ten years. In 2005, the Board of Administration and Executive Management embarked on a strategic plan review.

Strategic Plan Development

Beginning in January 2005, Executive and Senior Management engaged staff in developing a historical review, a current status, and a future assessment of each business line: Health, Investments, and Pension. Facilitated Board workshops were conducted over three consecutive months, held in March, April, and May.

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CalPERS invited experts in all three fields to present to the Board of Administration those critical issues to consider in the next five years to ten years. Together, all three workshops provided the Board of Administration with a 360 degree view of the trends, challenges, and opportunities that will impact CalPERS in both the short-term and in the way we do business in the future.

Based on the information learned in the strategic planning workshops and at the July 2005 Board offsite, Board members and Executive Management wrote 12 new goals and organized them into four focus areas: the three business lines of Pension, Health, and Investments; and the CalPERS Enterprise. To clarify the meaning of the goals and to provide direction when developing objectives, statements of intent were written to serve as the organization's compass for the next five to ten years.

The statements of intent offer key insights into those strategies that define the way CalPERS approaches its business as well as highlights the values that are important to the Board of Administration, CalPERS staff, members, and employers.

Ultimately, the goals reinforce our focus of maintaining and improving high quality customer service, ensuring the security of pension benefits, providing the best value in health benefits, and managing our investment portfolios with an eye on the long-term. The new CalPERS goals were approved by the Finance Committee on September 16, 2005, and formally adopted by the Board of Administration on September 21, 2005.

Three Year Business Plan Development

Guided by the adopted goals, in September CalPERS Executive and Senior Management and staff initiated a series of enterprise-wide meetings, working in cross-functional teams, to write the first set of business objectives. During several development sessions, staff focused on writing objectives that were more strategic, specific, and result-oriented. The proposed objectives acknowledge that we will approach our work in phases, recognizing that we must first clearly identify those efforts that provide the greatest value, and then define the appropriate measurements to inform our progress along the way. CalPERS has always measured its progress, but now more than ever, we must move to a more strategic performance management approach to measure those important areas of emphasis highlighted in our new goals. Many of the objectives reflect the first step in that evolution that will provide the organization with tools to begin to incorporate qualitative measures.

Divisions continued to meet, review, and refine the objectives through March 2006, and the work is presented to the Board of Administration as the CalPERS Proposed 2006-07 through 2008-09 Three-Year Business Plan (Attachment 1).

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During the first reading, the Board asked the Health Benefits Branch to add an objective addressing physician profiling. In response, Health Benefits Program staff added Objective 12.3 to the CalPERS Proposed 2006-07 through 2008-09 Three-Year Business Plan.

CalPERS Strategic Goals and Business Plan Reporting

2005-2006 Annual Plan Close-out

The 2005-2006 objectives, with work remaining, have either been accomplished or incorporated into new objectives to align with the new strategic plan, CalPERS staff will be reporting on the 2005-2006 objectives after the close of the fiscal year.

2006-2007 New Reporting Schedule

CalPERS staff recommend moving from a quarterly to a semi-annual strategic business plan reporting calendar to better position the organization to report meaningful strategic progress. Beginning in the 2006-2007 Fiscal Year, Strategic Plan updates will occur in December, before the January board offsite, and in June, before the July board offsite.

V. STRATEGIC PLAN:

The CalPERS Strategic Plan sets the direction for the organization for the next five to ten years. The Three-Year Business Plan documents business priorities and the enterprise implementation plan that will guide CalPERS toward the achievement of the CalPERS Strategic Plan goals.

VI. RESULTS/COSTS:

Cost and resource needs associated with the projects and other activities identified in the Three-Year Business Plan are included in the proposed 2006-07 Budget Agenda (Second Reading) Item.

Original Signed by Christina Forakis for Susan Garrett

Susan L. Garrett, Chief
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Original Signed by Curtis Howard

Curtis Howard
Assistant Executive Officer
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